

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 NSC-04 NSCE-00 TRSE-00 FRB-03

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LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGIN, GW

SUBJECT: MINISTER APEL ON GERMAN ECONOMIC POLICY

1. DURING MY CONVERSATION WITH FINANCE MINISTER APEL SEPT 5 I CALLED HIS ATTENTION TO THE WIDESPREAD PUBLIC-ITY IN THE UNITED STATES AND CONSEQUENT CONCERNS OVER RECENT GERMAN BANK FAILURES. I ALSO ASKED HIM FOR HIS COMMENTS ON GERMAN ECONOMIC POLICY IN THE NEAR RUN.

2. APEL SAID THAT THE TWO MATTERS WERE INDIRECTLY CONNECTED. OBVIOUSLY THE TIGHT LIQUIDITY SITUATION HAD CONTRIBUTED TO THE SITUATION OF THE BANKS. THE REAL PROBLEM HE INSISTED WAS THE HERSTATT INCIDENT WHICH SHOOK CONFIDENCE IN MANY OF THE BANKS ONE CAN SEE IN THE STATISTICS THE FLOW OF DEPOSITS INTO SAVINGS BANKS AND INDEED WITHDRAWALS OF CURRENCY TO KEEP AT HOME. HE SAID HE WAS DETERMINED TO DEAL WITH THIS PROBLEM AND HAD PROPOSED LEGISLATION TWO DAYS AGO TO DEAL WITH THE MATTER. IF THE BANKS OR OTHERS DO NOT LIKE HIS APPROACH ALTERNATIVE MEASURES COULD BE CONSIDERED BUT APEL IS DETERMINED TO HAVE SOME SATISFACTION BY THE END OF THE YEAR. IN THE
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MEANTIME HE SAID THAT WITHIN THE NEXT TWO OR THREE

WEEKS THE NEW LIQUIDITY ASSIST ARRANGEMENT WILL BE
IN PLACE.

3. AS TO DOMESTIC ECONOMIC POLICY APEL THOUGHT
CHANCELLOR'S ANNOUNCEMENTS OF LAST NIGHT ALREADY
PRESAGED A CHANGE. HE SAID THE BUNDESBANK IS READY
TO RELAX ITS RESTRICTIVE POLICY AND HAS ALREADY DONE

SOMETHING. THE RELAXATION WILL TAKE PLACE SLOWLY BUT
RELAXATION IS CERTAIN. INTEREST RATES ARE CAUSING A
PROBLEM WHICH RESTRICTS WHAT THE BUNDESBANK CAN DO. IF
THE GERMAN RATE GOES DOWN MONEY LEAVES THE COUNTRY AND
THE FRG LOSES RESERVES EVEN WITH LARGE EXPORTS. THIS
TIGHTENS LIQUIDITY AND INDICATES THAT THE BUNDESBANK
RELAXATION POLICY HAS ITS LIMITS. IN ADDITION PARITIES
TEND TO CHANGE DURING SUCH OUTFLOW IN A DIRECTION WHICH
THE FRG DOES NOT LIKE EVEN THOUGH IT HELPS VOLKSWAGEN

4 WHEN I REFERRED TO DM10 BILLION IN FUNDS
AVAILABLE FOR PUMP-PRIMING, APEL COUNTERED THAT DM10
BILLION IS NOT VERY MUCH. THEY CANNOT REPLACE EXPORTS
WITH DOMESTIC DEMAND. IN A REAL TURNDOWN THERE ARE
LIMITS AS TO WHAT THE FRG CAN DO DOMESTICALLY. THIS
IS WHY THE RECENT ITALIAN CREDIT WAS IN GERMAN AS WELL AS
ITALIAN INTERESTS. APEL THOUGHT IT IMPORTANT, HOWEVER,
THAT EVERYONE UNDERSTOOD EXACTLY WHERE WE ARE. IT IS
ESSENTIAL TO PERSUADE PEOPLE THAT THINGS HAVE CHANGED.
THIS INCLUDES TRADE UNIONS AND FARMERS WHO NEED TO
UNDERSTAND THERE ARE LIMITS TO WHAT THEY CAN DEMAND.

5. AS EVIDENCE OF A MORE EXPANSIVE POLICY APEL
REFERRED TO THE CHANCELLOR'S ANNOUNCEMENT YESTERDAY THAT
SOMETHING WOULD BE DONE FOR REGIONAL AND SECTORAL AREAS
OF THE ECONOMY APEL WAS THINKING OF CONSTRUCTION ABOVE
ALL BUT HE DOUBTED IF MEASURES THROUGH THE END OF THE
YEAR WOULD INVOLVE MORE THAN DM ONE BILLION APEL
THOUGHT THAT IF THE WINTER IS DIFFICULT THERE COULD
BE AS MANY AS 800,000 UNEMPLOYED WHICH HE DOES NOT SEE
AS TOO GREAT A PROBLEM SINCE SOCIAL MEASURES IN THE FRG
ARE HIGHLY DEVELOPED. AS A CONSEQUENCE UNEMPLOYMENT
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IS MORE A PSYCHOLOGICAL THAN A MATERIAL PROBLEM.
HILLENBRAND

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